Opening Statement of the Honorable Greg Walden
Subcommittee on Communications and Technology
Hearing on "The Lifeline Fund: Money Well Spent?"
April 25, 2013

(As Prepared for Delivery)

When the government spends other people's money, it has an ongoing obligation to ask a fundamental question: has it spent that money wisely? After all, the people whose money it is spending might have preferred to do something different with it, especially in these tight economic times. And if the answer to the fundamental question of whether the money is being well spent is "no," the government must ask a second question: how should it fix the situation?

Last year, the FCC spent $2.2 billion of other people's money on the Lifeline program. Specifically, it spent $2.2 billion of your money, my money—virtually every American's money—since the Lifeline program and the entire Universal Service Fund is paid for through a charge on phone bills. Carriers provide discounted service and collect the difference from the program. Some give away phones to gain the subscribers and the recurring revenue. But at the end of the day, it is still the same taxpaying people who bear the cost, since 96 percent of the country has phone service and see a fee on their bill.

The fund has increased 266 percent since 2008 and grown almost six-fold since 1998, all while the cost of phone service has gone down. Despite the limit of one subsidized subscriber per household, published reports suggest some subscribers have eight or more phones with subsidized service, with one woman saying that to get one "she just goes across the street and gets it." One man has claimed to have a bag full of 20 phones on the program that he sells "for about 10, 15, 20 bucks" each. Our hearing today is to determine what can be done to curb these kinds of potential abuses.

And it's not clear the money is even really helping low-income families. According to some reports, as many as 41 percent of those receiving Lifeline support either could not demonstrate eligibility for the subsidy or refused to respond to requests for certification. Moreover, 92 percent of low-income households have phone service but only about 58 percent of those households participate in the program, so many low-income homes apparently obtain phone service without the subsidy. And despite spending $7 billion on the program over the last five years, the phone penetration rate among low-income households has only grown two percent, with only some of that growth likely attributable to the Lifeline program since at least one-third of low-income phone households don't use the subsidy.

There may be a number of ways to interpret these and other data, but it certainly does not paint a picture of success. So as far as that first fundamental question goes, there is near unanimity among the FCC, both parties of Congress, and almost anyone familiar with the program that the Lifeline fund has been fraught with waste, fraud, and abuse and that the money has not been spent as wisely as it should have been.

There is more than enough blame to go around. The path we have found ourselves on was paved by many people, presumably with the best of intentions. But it does not change the fact that we are spending large sums of money and probably squandering much of it. Which brings us to the second question: how to fix the situation.

Senators McCaskill and Coburn say eliminate the program. Indeed, as recently as last month Senator McCaskill concluded that "there's just no reason this program should continue, given its history of extensive waste and abuse." Senator Pryor and Congressman Griffin say exclude wireless providers from the program. Congresswoman Matsui, Ranking Members Waxman and Eshoo, and a number of their colleagues say expand it to broadband. Whatever we do, staying on the present course seems out of the question.

To the FCC's credit, the agency has embarked on a number of reforms since 2011. For example, to ensure only eligible households participate and to combat duplicative subsidies to a single household or even a single user, the FCC is moving forward with beefed up certification processes and creation of eligibility and duplication databases. It has also imposed independent audit requirements on carriers receiving more than $5 million a year in Lifeline funding. The FCC says its efforts will save $2 billion over the next three years, but are the steps the Commission is taking enough? With only a 58 percent penetration rate, the fund may still continue to grow, especially if it is expanded to cover broadband. Should the program be eliminated? If not, should a freeze be put in place until reforms are complete? Should the program be placed under a cap or budget? (I note that the 2012 FCC reform order suggested the agency would establish a budget by early 2013, but disappointingly I see no mention of such a budget in today's FCC testimony.) Should subscriber co-payments be required? Should the program be moved to a voucher system so the subsidy goes directly to the user rather than through a carrier? Should the FCC reconsider the waivers allowing participation by non-facilities based carriers? These are among the questions many in industry, in the press, in Congress and in the public are asking and they are among the issues we will examine today.

I thank the witnesses for being here. Your testimony and expertise are welcome and we look forward to your ideas about this program gone awry.

###